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# Annual Report 2005-06

CERA BATHWARE

## Cera Sanitaryware Limited

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# Cera Sanitaryware Limited

**Board of Directors**

| | | |
|---|---|---|
| Shri Vikram Somany | - | Chairman-cum-Managing Director |
| Shri Sajan Kumar Pasari | | |
| Shri O. P. Bhandari | | |
| Shri N. K. Maheshwari | | |
| Shri D. P. Goyal | | |
| Shri Shree Narayan Mohata | | |
| Shri Vidush Somany | - | Executive Director |
| Shri S. C. Kothari | - | Wholetime Director |

**Bankers**

Bank of Baroda

**Auditors**

M/s. H. V. Vasa & Co.,
Chartered Accountants,
B-2, "Usha Kiran", Opp. Khanpur Gate,
Ahmedabad - 380 001.

**Registered Office**

9, GIDC Industrial Estate, Kadi-382 715,
Dist. Mehsana, Gujarat, India.

**Works**

1) 9, GIDC Industrial Estate, Kadi-382 715, Dist. Mehsana, Gujarat.
2) Vill. Lamba & Patelka, Tal. Kalyanpur, Dist. Jamnagar, Gujarat.
3) Vill. & Tal. Kalyanpur, Dist. Jamnagar.

**Corporate Office**

"Madhusudan House", Opp. Navrangpura Telephone Exchange, Ahmedabad - 380 006.

**Registrar & Share Transfer Agent**

MCS Limited,
101, Shatdal Complex, 1st Floor,
Opp. Bata Show Room, Ashram Road,
Ahmedabad - 380 009.

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**Annual General Meeting at 11.30 a.m. on Friday, the 30th day of June, 2006 at the Registered Office.**



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## NOTICE

Notice is hereby given that the Eighth Annual General Meeting of the Members of **CERA SANITARYWARE LIMITED** will be held at 11.30 a.m. on Friday, the 30th day of June, 2006 at the Registered Office of the Company at 9, GIDC Industrial Estate, Kadi – 382 715, Dist. Mehsana, to transact the following business:

**ORDINARY BUSINESS**

1. To consider and adopt Audited Profit and Loss Account for the year ended 31st March, 2006 and Balance Sheet as at that date and the Directors' and Auditors' Reports thereon.
2. To declare dividend on Equity Shares.
3. To appoint a director in place of Shri Sajan Kumar Pasari, who retires by rotation and being eligible, offers himself for reappointment.
4. To appoint a director in place of Shri D. P. Goyal, who retires by rotation and being eligible, offers himself for reappointment.
5. To appoint Auditors to hold office from the conclusion of this Annual General Meeting till the conclusion of the next Annual General Meeting and to fix their remuneration.

**SPECIAL BUSINESS**

6. To consider and, if thought fit, to pass, with or without modification, the following resolution as a special resolution:

   "RESOLVED THAT the following Article No. 10B be inserted after Article 10A of the Articles of Association of the Company:-

   **10B** Company to have power to buy-back its own shares and securities

   The Company shall have power, subject to and in accordance with the applicable provisions of the Companies Act, to purchase / buy-back its own shares and securities as it may consider appropriate, out of its free reserves or out of the securities premium account or the proceeds of any shares or securities or by any other means as may be permitted by the law (s) from time to time, on such terms, conditions and in such manner as may be permitted by law".

*7. To consider and, if thought fit, to pass the following resolution as a special resolution by means of Postal Ballot.

   "RESOLVED THAT pursuant to section 77A, 77AA, 77B and other applicable provisions, if any of the Companies Act, 1956 and the Securities and Exchange Board of India (Buy-back of Securities) Regulations, 1998, any rules as may be applicable and subject to such approvals, permissions and sanctions as may be necessary and agreed to by the Board of Directors of the Company (hereinafter referred to as the "Board", which expression shall also include a Committee thereof), the consent of the members be and is hereby accorded to the Board to buy-back, at its sole discretion at such time as it may consider appropriate, up to 9,00,000 fully paid equity shares of Rs.5/- each of the Company, constituting 16.74% of the paid up equity share capital of the Company at a price of Rs.65/- per equity share from the equity share holders of the Company, through tender offer on a proportionate basis.

   RESOLVED FURTHER THAT the Board be and is hereby authorized to Buy-back equity shares at a price of Rs. 65/- per share and do all such acts, deeds, matters and things as it may, in its absolute discretion, deem necessary, expedient, usual or proper for giving effect to the above resolution including but not limited to the appointment of Merchant banker(s), Solicitor(s), Legal Advisor(s), Registrar(s), Compliance Officer(s),and other Advisor(s), Consultant(s) or Representative(s), in relation to the implementation of the Scheme of Buy-back, as also to make applications to the appropriate authorities for the requisite approvals, and to initiate all necessary actions for preparation and issue of letter of offer, public announcement, declaration of solvency, certificate of extinguishment and physical destruction of share certificates and to prepare all other documents as may be required and file the said documents with the Securities and Exchange Board of India, the Stock Exchanges, the Registrar of Companies and/or other authorities and to settle all questions, difficulties or doubts that may arise in relation to the implementation of the buy-back without being required to seek any further consent or approval of the members or otherwise to the end and intent that the member shall be deemed to have given their approval thereto expressly by the authority of the above resolution.

By Order of the Board of Directors

Kadi – 382 715
20th May, 2006

**Narendra N. Patel**
G. M. & Company Secretary

* In respect of item no. 7, the approval of the shareholders is being sought through the postal ballot, as required u/s. 192A of the Companies Act, 1956 read with the Companies (Passing of the Resolution by Postal Ballot) Rules, 2001 for which a separate ballot paper and other communication is circulated to the members along with this notice.

**NOTES**

1. A MEMBER ENTITLED TO ATTEND AND VOTE IS ENTITLED TO APPOINT PROXY TO ATTEND AND VOTE INSTEAD OF HIM SELF AND SUCH PROXY NEED NOT BE A MEMBER OF THE COMPANY.
2. Members are requested to notify immediately the change of address, if any, to the Company or M/s. MCS Limited, Registrar and Share Transfer Agent.
3. The Register of Members and Share transfer book of the Company will remain closed from 16.06.2006 to 30.06.2006 (both days inclusive).
4. The Board of Directors has recommended 18% dividend on fully paid Equity Shares of Rs.5/- each for the year ended 31.03.2006.
5. Members / Proxies should bring the attendance slip sent herewith duly filled in for attending the meeting.
6. Members are requested to send their queries atleast ten days before the date of the meeting so that the information can be made available at the meeting.
7. As per the provisions of Section 205 of the Companies Act, 1956 the dividend can be paid to the bankers of the Shareholder or any other authorized person. The Shareholders who want to make the Payment of dividend to any other person or banker may send the authority to the Company on or before 15.06.2006 with details of number of shares held, amount of dividend, L.F. No. / DPID and name of the person / bank to whom the payment is to be made.
8. Shareholders holding shares in Electronic Form may kindly note that their bank account details as furnished by their depositories to the Company will be printed on their dividend warrants as per the applicable regulations of the depositories and the Company will not entertain any direct request from such shareholders for deletion of / change in such Bank details. Shareholders who wish to change such Bank Account details are, therefore, requested to advise their Depository Participants about such change, with complete details of bank account.



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9. Brief resume of directors, who are proposed to be appointed / reappointed at this meeting are given below:

| Name of Director | Shri D.P. Goyal | Shri Sajan Kumar Pasari |
|---|---|---|
| Date of Birth | 19.09.1948 | 21.02.1947 |
| Date of appointment | 17.07.1998 | 15.06.2004 |
| Expertise in specific Functional areas | Marketing and Administration | Businessman |
| List of other Directorships held | M/s. Madhusudan Industries Ltd. | Regent Estates Ltd.<br>Bajrang Factory Ltd.<br>Assam Roofing Ltd.<br>India Automobiles (1960) Ltd.<br>The Chamong Tea Co. Ltd.<br>Merrygold Properties Pvt. Ltd.<br>Kiwi Estates Pvt. Ltd.<br>Parmeshwar Estates Pvt. Ltd.<br>I A Builders Pvt.Ltd.<br>I A Property Developers Pvt.Ltd. |
| Chairman / Member of the Committees of the Board of the Companies on which he / she is a Director | Madhusudan Industries Ltd. | —— |
| Shareholding in the Company | 25 | 1,28,570 |

**Explanatory Statement pursuant to Section 173(2) of the Companies Act, 1956.**

**Item No. 6**

Section 77A to 77B of the Companies Act, 1956 permits buy-back of securities by the Company. In order to make Articles of Association in conformity with law, it is proposed to insert suitable clause for permitting the Company to buy-back securities as may be permitted by law(s).

Your directors commend the resolution as per item no. 6 of the notice for passing by members.

None of your Directors is concerned or interested in the resolution.

**Item No. 7**

As per the requirements of Section 173(2) and Section 77A and other applicable provisions of the Companies Act, 1956 and the Securities and Exchange Board of India (Buy-Back of securities) Regulations, 1998, the following details are furnished to the Shareholders:

1. The Company intends to Buy-back 9,00,000 equity shares of Rs.5/- each, constituting 16.74% of the fully paid-up equity share capital of the Company, as on 31st March, 2006 at a price of Rs.65/- per equity share aggregating to Rs.5.85 crores from the equity shareholders including promoters and persons in control of the Company (hereinafter collectively referred to as "Promoters") to the extent of 4,40,600 equity shares.

2. The Board of Directors of the Company at their meeting held on 9th May, 2006, considered and approved the proposal for buy-back of its equity shares by the Company.

3. The Company is proposing the buy-back with a view to enhance the overall shareholders value, increasing earning per share and averting hostile takeovers by the competitors and new big players including multinationals. The buy-back will not in any manner impair the ability of the Company to pursue growth opportunities.

4. The Company will adopt the "Tender Offer" method to buy-back the equity shares of the Company on a proportionate basis.

5. The maximum amount of Rs.5.85 crores is required for the buy-back and the same is proposed to be financed entirely out of internal accruals. This amount does not exceed 25% of the paid-up share capital and free reserves of the Company as of 31st March, 2006.

6. The buy-back is expected to be completed within 12 months time as permitted under the Companies Act, 1956, although the Company will endeavour to complete the process at an early date.

7. The maximum buy-back price of Rs.65/- being fair value per share has been arrived at, taking into account the maintainable yield, intrinsic value per share, dividend payment, return on net worth, value on price earning ratio and trends in the market price of the equity shares of the Company. The closing market price of the equity shares on 1st May, 2006 (being the date of intimation of the Board meeting to the Stock Exchanges) was Rs. 106.00 on the Bombay Stock Exchange Ltd. (BSE). The maximum buy-back price of Rs.65/- is on the basis of valuation report dated 9th May, 2006 of M/s.Sanjay Bajoria & Associates, Kolkata and report of M/s. H. V. Vasa & Co., Statutory Auditors concurring with the aforesaid valuation.

8. The resolution also provides for authorizing the Board of Directors to buy-back shares at a price of Rs. 65/- per share.

9. (a) The aggregate shareholding of the Promoters as on date of this notice is 31,37,980 equity shares of Rs.5/- each constituting 58.38% of the equity share capital of the Company.

   (b) The promoters and persons in control of the Company proposes to tender 4,40,600 equity shares held by the Madhusudan Holdings Limited, a group promoter Company. The promoters intend to tender these shares, as the price offered by the Company is fair price and resultant change in the promoters holding will be slightly more than their holding before buy-back i.e. 58.38% Pre buy-back and 60.28% post buy-back. It is presumed that buy-back offer will be fully subscribed to the extent of 9,00,000 equity shares including 4,40,600 equity shares by promoters



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The Promoters were allotted 31,37,980 equity shares on the demerger of the Ceramic Division of Madhusudan Industries Ltd. pursuant to the Order of the Hon'ble High Court of Gujarat dated 30-10-2001, sanctioning the scheme of Arrangement under section 391-394 of the Companies Act, 1956. The Ceramic Division of Madhusudan Industries Limited was merged into Madhusudan Oils & Fats Ltd. pursuant to the Order of Hon'ble High Court of Gujarat w.e.f. 01.04.2001.

The name of the Company has been changed from Madhusudan Oils & Fats Ltd. to Cera Sanitaryware Limited w.e.f. 01.11.2002 consequent upon the fresh Certificate of Incorporation, issued by the Registrar of Companies, Gujarat State, Ahmedabad.

(c) The Promoters have not purchased or sold any equity shares of the Company during the twelve months preceding the date of Board Meeting at which the buy-back was approved till the date of this notice.

(d) As on the date of this notice there are no partly paid-up equity shares or outstanding convertible instruments. There are no equity shares under lock-in.

10. The Promoters intend to tender 4,40,600 equity shares held by Madhusudan Holdings Ltd., a promoter group Company, in the buy-back.

Madhusudan Holdings Ltd. had initially acquired 1,500 shares of Madhusudan Industries Ltd. in 1978 having face value of Rs.100/- each for total consideration of Rs.1,62,818/-. Madhusudan Industries Ltd. announced 1:1 bonus in 1986, taking total number of shares to 3,000 in the hands of Madhusudan Holdings Ltd. In 1986, Madhusudan Commerce Ltd. amalgamated with Madhusudan Holdings Ltd. Madhusudan Commerce Ltd. was holding 11,400 shares (post 1:1 bonus) of Madhusudan Industries Ltd. at book value of Rs.5,60,986/-. Post amalgamation, Madhusudan Holdings Ltd. held 14,400 shares of Madhusudan Industries Ltd. at total cost of Rs.7,23,804/-. In 1989, Madhusudan Industries Ltd. announced 1:1 bonus and stock split of Rs.100/- paid up shares into Rs.10/- paid up share. This resulted in 2,88,000 shares of Madhusudan Industries Ltd. in the hands of Madhusudan Holdings Ltd. Madhusudan Industries Ltd. again announced 1:2 bonus in 1990 taking total number of shares to 4,32,000 in the hands of Madhusudan Holdings Ltd. at cost of Rs.7,23,804/-. Madhusudan Holdings Ltd. acquired additional 8,600 shares of Madhusudan Industries Ltd. from market in 1996 for consideration of Rs.4,01,276/-. Thus taking its total holding to 4,40,600 shares at cost of Rs.11,25,080/-. In 2001, ceramic division of Madhusudan Industries Ltd. was hived off and was merged with Madhusudan Oils & Fats Ltd. As per the Order of the Hon'ble High Court of Gujarat dated 30-10-2001, sanctioning the scheme of Arrangement under sections 391-394 of the Companies Act, each Rs.10/- paid up share of Madhusudan Industries Ltd. was given one share of Rs.5/- paid up of Madhusudan Industries Ltd. and one share of Rs.5/- paid up of Madhusudan Oils & Fats Ltd. Post demerger of ceramic division of Madhusudan Industries Ltd., Madhusudan Holdings Ltd. was holding 4,40,600 shares of Madhusudan Industries Ltd. having face value of Rs.5/- at cost of Rs.5,62,540/- and 4,40,600 shares of Madhusudan Oils & Fats Ltd. having face value of Rs. 5/- at cost of Rs.5,62,540/-. In 2002 name of Madhusudan Oils & Fats Ltd. was changed to Cera Sanitaryware Ltd. Thus Madhusudan Holdings Ltd. is currently holding 4,40,600 shares of Cera Sanitaryware Ltd. at cost of Rs.5,62,540/-.

The shareholding pattern of the Company as on the date of notice convening the General Meeting and after the offer (assuming full subscription of the offer) will be as under:-

| | Before Buy-back as on 16-05-2006 | | After Buy-back | |
|---|---|---|---|---|
| Particulars | No. of Equity Shares | % to the existing Equity Share Capital | No. of Equity Shares | % to the post buy-back Equity Share Capital |
| Promoters & persons in control of the Company | 31,37,980 | 58.38 | 26,97,380 | 60.28 |
| Public Financial Institutions, Banks & Mutual Funds | 63,821 | 1.19 | | |
| Foreign Nationals / NRIs | 25,726 | 0.48 | 17,77,634 | 39.72 |
| Private Bodies Corporate | 5,14,486 | 9.57 | | |
| Indian Public | 16,33,001 | 30.38 | | |
| Total | 53,75,014 | 100.00 | 44,75,014 | 100.00 |

11. The Directors confirm that there are no defaults subsisting in repayment of deposits, redemption of debentures or preference shares or repayment of term loans to any financial institution or bank.

12. The Directors confirm that, based on a full inquiry conducted into the affairs and prospects of the Company through scrutiny of financial performance on a regular and continuous basis and taking into account all the liabilities including prospective and contingent liabilities payable as if the Company were being wound up under the Companies Act, 1956, they have formed the opinion that:-

(a) immediately following the date on which the General Meeting is convened and the results of the postal ballots are declared, there are no grounds on which the Company could be found unable to pay its debts.

(b) as regards its prospects for the year immediately following the date of General Meeting and declaration of results of the postal ballot, having regard to their intentions with respect to the management of the Company's business during the said year and to the amount and character of the financial resources which will be available to the Company during the said year, the Company will be able to meet its liabilities as and when they fall due and will not be rendered insolvent within a period of one year from that date.



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13. **AUDITORS' REPORT**

9th May, 2006
The Board of Directors
Cera Sanitaryware Limited
"Madhusudan House"
Opp. Navrangpura Telephone Exchange
Ahmedabad 380006

Dear Sirs,

**Sub : Proposed Buy-back of Equity Shares**

We have been informed that the Board of Directors in the Meeting held on 9th May 2006 decided to buy-back the Company's equity shares as allowed under Section 77A of the Companies Act, 1956. In this connection, we confirm as under:

i. We have inquired into the state of affairs of the Company in relation to its audited accounts for the year ended 31.03.2006.

ii. The amount of permissible capital payment towards buy-back of equity shares (including premium) in question as ascertained below, has been properly determined in accordance with section 77A(2)(c) of the Companies Act, 1956:

| | Rs. in lacs |
|---|---|
| Share capital as on 31.03.2006 (53,75,014 equity Shares of Rs.5/- each, fully paid-up) | 268.75 |
| Free Reserves as on 31.03.2006 | 2557.55 |
| Total | 2826.30 |
| Maximum amount permitted for buy-back i.e. 25% of the total paid-up capital and free reserves | 706.58 |
| Total number of Shares purposed to be bought back during the financial year 2006-07 | 9,00,000 |
| Maximum number of shares permitted for buy-back i.e. 25% of the total paid up equity capital | 13,43,754 |

iii Based on the representation made by the Company and other information and explanation given to us, which to the best of our knowledge and belief were necessary for this purpose, we report that the Board of Directors in the meeting held on 9th May, 2006 formed the opinion, as specified in clause (x) of Schedule I of SEBI (Buy-back of securities) Regulations, 1998 on reasonable grounds that the Company will not, having regard to its state of affairs, be rendered insolvent within a period of one year from the date of General Meeting and declaration of results of the postal ballots on 30th June, 2006.

Yours faithfully
**For H. V. Vasa & Co.**

**Tushar H. Vasa**
Chartered Accountant
Membership No. 16831

The Directors of the Company are concerned or interested in this resolution to the extent of tendering of 4,40,600 equity shares in the buy-back offer of the Company and to the extent of resultant change in the shareholding, if any, in the post buy-back capital of the Company.

Valuation report by M/s.Sanjay Bajoria & Associates, Chartered Accountants, Kolkata and report of M/s. H. V. Vasa & Co., Statutory Auditors are available for inspection at the registered office of the Company during office hours on any working day up to 30-06-2006.

Your Directors commend the resolution as per item No. 7 of the notice for passing by the members by the Postal Ballot.

By Order of the Board of Directors

Kadi – 382 715
20th May, 2006

**Narendra N. Patel**
G. M. & Company Secretary



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Directors' Report

The Members,

The Directors have pleasure in submitting the Annual Report together with the Statement of Accounts of your Company for the year ended 31st March, 2006.

**Performance**

The summary of your Company's financial performance is given below:

| | | (Rs. in lacs) |
|---|---|---|
| | **Year ended March 31, 2006** | Year ended March 31, 2005 |
| Profit before Depreciation and Taxes | **1164.81** | 609.12 |
| Deducting therefrom Depreciation of | **268.22** | 210.67 |
| Profit before tax | **896.59** | 398.45 |
| Deducting therefrom taxes of: | | |
| - Current Tax | **183.11** | 164.10 |
| - Fringe Benefit Tax | **14.00** | — |
| - Deferred Tax | **109.54** | -4.79 |
| Profit after Tax | **589.94** | 239.14 |
| Add: Balance brought forward from previous year | **150.00** | 100.00 |
| Amount available for Appropriations | **739.94** | 339.14 |
| The proposed appropriations are: | | |
| 1. Proposed Dividend | **48.37** | 43.00 |
| 2. Tax on Proposed Dividend | **6.79** | 6.03 |
| 3. General Reserve | **284.78** | 140.11 |
| 4. Balance carried forward | **400.00** | 150.00 |
| **Total :** | **739.94** | 339.14 |

**Sanitaryware Unit**

There was overall improvement in productivity at the Plant. The turnover of the Company in the year under review increased by 32% and the production increased by 6% due to better yield and improvement in the manufacturing process.

**Power Unit**

The non-conventional wind power generation in the year was 21,86,320 KWH against 12,30,973 KWH in the previous year. During the year company added 10 WTGs (2.5 M.W.) at Patelka, which enhanced the capacity of the power unit. Thus, the aggregate installed capacity of power unit now is 3.725 M.W.

**Management Discussion and Analysis Report**

**(a) Industry Structure and Developments**

Traditionally, the sanitaryware industry in India was divided into two categories—the organized sector and the unorganized sector. With the opening up of Indian economy, a third category has also emerged that of imported sanitaryware. Not to be outdone by this segment, almost all manufacturers in the organized sector have started importing premium sanitaryware and marketing it in their own brand name or under the original brand name. In order to accelerate the growth, the companies are increasing their range of products.

During the current year, the Company has introduced several new products, like bath fittings, glass basins, etc. This is apart from the shower range, which got expanded by addition of new models and also the Sanitaryware range, which saw the inclusion of several new premium ranges.

The Company also continued to add CERA Bath Studios (Company Display Centres) in three more cities. In all, now six Bath Studios are functional—at Ahmedabad, Chandigarh, Bangalore, Kolkata, Kochi and Hyderabad.

**(b) Opportunities and Threats**

The growth in housing construction throughout the country offers great opportunity for the Company. The increasing brand consciousness amongst the consumers will help Company fare better in the years ahead, supported by its concerted and continued efforts in brand promotional activities.

The increasing imports of sanitaryware and the likely commencement of new sanitaryware plants in the country, can cause a threat to the growth rate of the Company. The sanitaryware manufacturers in the unorganized sector continue to enjoy duty exemptions, which is not conducive for healthy competition, while those in the unorganized tiles industry have already been brought on parity by the Government long back.

**(c) Outlook**

With the Government policy of continuing tax benefits on housing loans and the increasing number of shopping malls in all towns give an ample opportunity to the Company. The construction rate is expected to grow for at least 4 to 5 years.

The Company continually upgrades its technology, to improve its yield and quality, in order to be competitive in the market place. Ceramic technologists from abroad are hired for improving the productivity. Also, installation fuel-efficient kilns has been taken up by the Company. One such shuttle kiln has already been commissioned in the current financial year.

Similarly, the Company is also gradually evolving to be a total bathroom solutions provider, from a mere sanitaryware manufacturer over the last couple of years. This transformation will continue in the coming years, with the additional newer products in the bathroom category.

**(d) Risks and Concerns**

Any drastic change in the Government Policy may affect the sanitaryware manufacturers.

**(e) Internal Control Systems and their adequacy**

The Company has adequate system of internal control relating to the purchase of stores, raw materials, plant & machineries, equipments and various components and for the sale of goods commensurate with the size of the Company and the nature of business.

The system of internal control of the Company is adequate keeping in mind the size and complexity of your Company's business. Systems are regularly reviewed to ensure effectiveness.

**(f)** Financial performance with respect to operational performance is discussed in the main part of the Report.

**(g) Material Developments in Human Resources / Industrial Relations**

The Company continues to invest in training and education of its employees and has been organizing various training programmes from time to time. It had also availed the services of "Leadership Management International(LMI)", Waco, Texas through their Indian associate "Unnati Institute of Leadership"



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in training to production personnel. In Sept-2005 Labour agreement was entered into for a period of four years with a substantial increase in compensation and benefits.

This marks the continuation of cordial labour welfare policies of the company, introduction of new welfare measures and focus on productivity and quality linked incentives.

**Corporate Governance**

Pursuant to Clause 49 of the Listing Agreement with the Stock Exchanges, Report on Corporate Governance alongwith the Auditors' statement on its compliance has been included in this Annual Report as a separate section.

**Directors' Responsibility Statement**

In compliance of Section 217 (2AA) of the Companies Act, 1956, the Directors of your Company confirm:

- that the applicable accounting standards have been followed in the preparation of final accounts and that there are no material departures;
- that such accounting policies have been selected and applied consistently, and such judgements and estimates made are reasonable and prudent so as to give a true and fair view of the state of affairs of the Company as at March 31, 2006, and of the profit of the Company for the year ended on that date;
- that proper and sufficient care has been taken for the maintenance of adequate accounting records in accordance with the provisions of the Companies Act, 1956 for safeguarding the assets of the Company and for preventing and detecting fraud and other irregularities;
- that the annual accounts have been prepared on a going concern basis.

**Dividend**

Your Directors recommend a dividend of Re. 0.90 per share (previous year Re.0.80) on 53,75,014 Equity Shares of Rs.5/- each fully paid for the year ended 31.03.2006, to be paid subject to approval by the members at the ensuing Annual General Meeting.

**Energy Conservation, Technology Absorption, R & D Cell and Foreign Exchange Earnings & Outgo**

The details required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 are annexed to this report.

**Exchequer**

The Company has contributed Rs.15.61 Crores to the exchequer by way of excise duty, customs duty, income tax, sales tax and other fiscal levies.

**Fixed Deposit**

Fixed deposits from the Public, outstanding as on 31.03.2006 was Rs.162.08 lacs. There were 18 Fixed Deposit holders with Rs. 5,17,000 of unclaimed / unrenewed deposits as on 31.03.2006. The Company, on the basis of the working results during the year under review can accept deposits from the Public as well as from the shareholders to the extent of Rs. 989.20 lacs.

**Finance**

During the year under review, the Company repaid loans of Rs.202.85 lacs to Financial Institutions and the Government of Gujarat.

**Employees**

Information as per sub-section (2A) of Section 217 of the Companies Act, 1956 read with the Companies (Particulars of Employees) Rules, 1975 forming part of the Directors' Report for the year ended 31st March, 2006 is annexed.

**Directors**

Shri Vikram Somany and Shri S C Kothari have been re-appointed as Chairman-cum-Managing Director and Whole time Director respectively w.e.f 13.08.2005 for a period of three years.

Shri Sajan Kumar Pasari and Shri D. P. Goyal are due to retire at the end of ensuing Annual General Meeting and being eligible offer themselves for re-appointment.The brief resume of Shri Sajan Kumar Pasari and Shri D. P. Goyal, directors as required by Clause 49 of the Listing agreement with the Stock Exchanges , is provided in the Notice convening the Annual General Meeting of the Company.

**Auditors**

M/s H.V.Vasa & Co., Statutory Auditors of the company retire at the end of forthcoming Annual General Meeting and being eligible, offer themselves for re-appointment. The Board recommends their re-appointment at the ensuing Annual General Meeting.

**Insurance**

The Company has adequately insured all its properties including Plant and Machinery, Building and Stocks.

**Industrial Relations**

The Company's relations with its employees remained cordial throughout the year. The directors wish to place on record their deep appreciation for the services rendered by workers, staff members and executives of the Company.

The Company has taken adequate steps for the health and safety of its employees, as required under the Gujarat Factories Rules, 1963.

**Appreciation**

Your Directors thank the Financial Institutions and Bankers for extending timely assistance in meeting the financial requirements of the Company. They would also like to place on record their gratitude for the co-operation and assistance given by Bank of Baroda and various departments of both State and Central Governments.

For and on behalf of the Board of Directors,

Ahmedabad
9th May, 2006

**Vikram Somany**
Chairman-cum-Managing Director



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**Annexure to the Directors' Report**

Disclosure of particulars with respect to Conservation of Energy, Technology Absorption, Foreign Exchange Earnings and Outgo as required under the Companies (Disclosure of particulars in the Report of Board of Directors) Rules, 1988 and forming part of the Report of the Board of Directors for the year ended 31st March, 2006.

**Energy Conservation**

**Form - A : Not Applicable**

**Technology Absorption**

**Form B**

**Research and Development (R & D)**

| | | | |
|---|---|---|---|
| 1. | Specific areas in which R & D is carried out | : | The Company's Research & Development Unit is recognized by the Department of Scientific and Industrial Research, Government of India, since 1993. It has been constantly developing new body and glaze composition.<br>It has been successful in the following areas:<br>❖ New Refire glazes were developed for improving better matching.<br>❖ Better quality Zirconium Silicate has been developed to improve glaze quality.<br>❖ New Ball Clay sources developed to improve quality of casting slip(from Bikaner and Eluru).<br>❖ Development of better quality cold repair resin product, which has been introduced in production successfully.<br>❖ New method for reprocessing the final product to reduce refiring cost. |
| 2. | Benefit derived as a result | : | With the introduction of new sources and import substitution of raw materials, colours, the cost of wares has reduced. The company has also developed an indigenous source of Plaster of Paris against imported plaster, resulting in substantial saving. |
| 3. | Future plan of action | : | To minimize imports by developing substitution in India for better inventory management, cost reduction and development of new Ceramic Body.To develop Indian sources of Block Plaster for cost reduction. |
| 4. | Expenditure on R & D | | |
| | a) Capital | : | Rs. 4,20,490/-. |
| | b) Recurring | : | Rs. 47,42,207/-. |
| | c) Total | : | Rs. 51,62,697/-. |
| | d) Total R & D Expenditure as a percentage of total turnover | : | 0.65% |
| **Technology Absorption, Adaptation & Innovation** | | : | Nil |
| **Total Foreign Exchange used and earned** | | | |
| Total foreign exchange used | | : | Rs.1055.66 Lacs |
| Total foreign exchange earned | | : | Rs. 242.98 Lacs |

**Annexure to the Directors' Report**

Information as per Section 217(2A) read with the Companies (Particulars of Employees) Rules, 1975 and forming part of the Directors' Report for the year ended 31st March, 2006.

| Sr. No. | Name & Age (Years) | Designation/ Nature of Duties | Remuneration (Rs.) | Qualifications & Experience(Years) | Date of commencement of employment | Last Employment, Name of employer, Post held and period (years) |
|---|---|---|---|---|---|---|
| (1) | (2) | (3) | (4) | (5) | (6) | (7) |
| Names of Employees employed through out the year and were in receipt of remuneration of not less than Rs.24,00,000/- during the year: | | | | | | |
| 1 | Shri Vikram Somany (56 years) | Chairman-cum-Managing Director | Rs.38,82,371 | B.Sc., FCMI (u.k.) (32 years) | 13.08.2002 | Madhusudan Industries Limited<br>Chairman-cum-Managing Director<br>(1 year) |

Notes :

1. Gross remuneration as above includes Salary, Company's contribution to Provident Fund, Leave Encashment, Leave Travel Reimbursement, Medical Expenses Reimbursement, House Rent Allowance, Housing Accommodation and Monetary value of perquisites calculated in accordance with the provisions of Income Tax Act, 1961 and Rules made thereunder.
2. Shri Vikram Somany is father of Shri Vidush Somany, Executive Director of the Company.



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